

INTERNAL MEMORANDUM

TO: Phaedra Chrousos
Associate Administrator, OCSIT/18F

FROM: Aaron Snow
Acting Executive Director, 18F

CC: Tom Sharpe
Commissioner, FAS

Gerard Badorrek
Chief Financial Officer

DATE: March 31, 2016

RE: Regular Labor Rate Review for 18F Services

1.0 Purpose

The purpose of this memorandum is to: (1) provide a review of the current 18F labor rates, as established in the July 10, 2015 memorandum entitled "Labor Rate Change for New 18F Service Agreements"; and (2) establish rates for the period beginning April 1, 2016 and ending September 30, 2016.¹

2.0 Executive Summary

Labor rates will remain unchanged for the second half of fiscal year 2016 based on significant progress towards cost recovery targets in Q2 and projected performance in Q3 - Q4.

3.0 Authority

A memorandum of agreement executed June 1, 2015 by the Acting Administrator, the Acting Deputy Administrator, the Chief Financial Officer, the Chief Information Officer, the Commission of the Federal Acquisition Service, and the Associate Administrator of OCSIT/18F provides the following:

¹ "Labor Rate Change for New 18F Service Agreements," July 2015 (<https://drive.google.com/open?id=0B84F26FpUP0IYkFmWE9CZFdreWM>). The rates described in that document remained unchanged at our most recent rate review, in September 2015. <https://docs.google.com/document/d/1u4LY29zSuwuCQaeiD1Fp4P5iMXojWj9-n7-LSRNh6LM/edit>

The OCFO will work in coordination with 18F during bi-annual rate reviews to assess program rate levels. During this process, the OCFO will provide recommendations on program rate structures. 18F is responsible for establishing its rates and ensuring that the rates are implemented with customer agencies.²

This memorandum establishes 18F's rates pursuant to this provision.

4.0 Background

On September 30, 2015, set the following rates for all work performed during the first half of fiscal year 2016:

Table 1. Labor Rates for all Services for Fiscal Year 2016 Q1 - Q2

Employee Grade Level	GS-7	GS-9	GS-11	GS-12	GS-13	GS-14	GS-15
Hourly Rate	\$146	\$152	\$160	\$169	\$180	\$191	\$205

All clients, regardless of when their agreement was executed, have been assessed the above rates, beginning on October 1, 2015.

5.0 Evaluation of Current Labor Rates

5.1 Review of Composition of Rates

18F sets its labor rates based on straightforward two variables: (1) the total number of hours expected to be sold in a given period; and (2) the total cost of those hours. Note that the total cost of hours sold is not equal to 18F's total operational cost: the difference between the revenue generated by hours sold and the revenue required for total cost recovery is bridged by projected sales of commoditized services such as platform access ([cloud.gov](#), [Federalist](#)), per order fees on internal contracting vehicles ([Agile Development Blanket Purchase Agreement](#), [18F Micropurchase](#)) paid by clients, and short-term, fixed price engagements (such as [RFP Ghostwriting](#) workshops). This is detailed in Table 2, below.

² "Memorandum of Agreement Between the Federal Acquisition Service and the Office of Citizen Services, Innovative Technologies, and 18F," June 2015 (<https://drive.google.com/open?id=0B4JAQaDaWjUab2dPU2c3X0VSQWM>).

Table 2. Hourly and Non-Hourly Revenue Plan

	Q1	Q2*	Q3*	Q4*	Tota*I
Revenue	4,895	8,110	10,054	11,271	34,332
Hourly Revenue	4,697	7,765	9,554	10,591	32,608
Blended Rate per Hour	194.66	194.66	194.66	194.66	194.66
Hours Sold	24,129	39,893	49,083	54,411	167,516
Non-Hourly Revenue	199	345	500	680	1,724
Cloud.gov	120	345	400	480	1,345
Agile BPA Orders	0	0	100	200	300
Federalist	9	0	0	0	9
RFP Ghostwriting	70	0	0	0	70
Expenses	10,415	11,648	12,561	13,389	48,012
Hourly Expense	9,382	10,897	11,545	12,306	44,131
Cost Rate per Hour	117.61	117.61	117.61	117.61	117.61
Hours Worked	79,774	92,653	98,166	104,637	375,229
Non-Hourly Expense	1,032	751	1,015	1,082	3,881
Cost Rate per Hour	117.61	117.61	117.61	117.61	117.61
Hours Worked	8,779	6,387	8,634	9,203	33,003
Net Result	-5,519	-3,538	-2,506	-2,117	-13,681
Hourly Net Result	-4,685	-3,131	-1,991	-1,715	-11,523
Non-Hourly Net Result	-834	-406	-515	-402	-2,158

**Projected.*

The result above is based on steady hiring over the remainder of fiscal year 2016 and increasing the amount of time spent on projects that are billed by the hour from 43% available hours to 50% available hours in the third quarter and 52% available hours in the fourth quarter. 18F believes these increases in utilization are attainable based on performance in February and March in which billable utilization was maintained at or around 49% and projected increases in utilization during the third quarter based on scheduling data the program maintains.

7.0 Considerations

There are three interests that 18F must balance in setting its hourly labor rates. First, prices must be set low enough as to not impact demand and set off a rising prices and shrinking demand cycle that prevents 18F from maintaining and expanding market share. Second, 18F must comply with the constraints of the cost recovery authorities it relies upon for its

reimbursable agreements. Third, 18F is required to maintain a plan for cost recovery pursuant to the OCSIT/18F-FAS memorandum of agreement.³

Price and Demand. 18F has determined that labor rates at or approaching \$200 per hour are acceptable and competitive for modern government digital services. This determination is based on industry knowledge of persons employed by 18F that joined the organization from digital service firms, previous experience with vendors during acquisition activities, and data available via data sources such as [CALC](#). Furthermore, given the relative age of 18F (which celebrated its second year of official existence in March 2016) and the size of the government digital service marketplace, it is a priority for 18F to demonstrate value achievable at market rates. Maintaining competitive prices enables 18F to meet that priority.

Compliance with Recovery Authorities. The OCSIT/18F-FAS memorandum of agreement provides 18F with at least two distinct authorities for cost recovery: the Economy Act and the Acquisition Services Fund statute. 18F relies primarily on the Economy Act for recovery of costs for hourly work. The Economy Act requires 18F to recover from customer agencies the actual costs of goods and services provided. In Table 2, above, 18F has identified a subset of all hours worked which directly or indirectly reflect the delivery of 18F goods and services. (There are projected to be 375,229 of such hours worked in fiscal year 2016.) This subset of hours that supports hourly work includes the specific hours worked on behalf of a client (i.e. the hours an engineer spends writing code for a client) and the hours spent by the organization managing and administering these services (i.e. functions of the operations team or development of operational tooling by an engineer). The total cost of these hours is what 18F aims to recover via engagements that are billed on an hourly basis. 18F believes this methodology is firmly within the ambit of the Economy Act.

Plan for Cost Recovery. 18F's current fiscal plan projects at or near cost recovery on a monthly basis beginning in fiscal year 2017. This plan relies on achievable, incremental increases in utilization; increased revenue from non-hourly work, including an increase in revenue from major platforms like Cloud.gov and acquisitions vehicles like the Agile Development Blanket Purchase Agreement; and continued expansion of our partnership portfolio in the government digital services marketplace.

6.0 Decision

Based on these factors, 18F will maintain its current labor rates for the period beginning April 1, 2016 and ending September 30, 2016.

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³ *Id.*